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## The Last Mile

*Why is it still so hard to engage line managers in budgeting?*

Don Durfee, CFO Magazine

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### Article Sidebars

[Wanted: A Better Front End](#)

[Not Excel-ing](#)

[Minimal Engagement](#)

[Training Needed](#)

In the typical budget tango, executives push hard for revenue and profit goals — in theory to challenge operations, in practice to please shareholders. Then line managers push back — in theory to reflect the reality of the market, in practice because bonuses are so often linked to budget targets. And so it goes, until everyone involved in the dance is as mistrustful as they are exhausted.

Every finance chief has run into this problem, says David S. Smith, CFO of Standard Microsystems. "No one likes to talk about [the lack of input from line managers]," he says. "With all the advanced technology we have, you would think something that sounds so simple would, in fact, be easy."

### What's Going On

It isn't, a fact that can be seen in a new poll of finance managers conducted by *CFO* and The Buttonwood Group, a performance-management consulting firm. According to the survey of 150 finance executives (see "[Minimal Engagement](#)" at the end of this article), fully 57 percent say line managers at their businesses do not personally key in their budget data. Further, very few have managers who provide variance explanations without help from finance.

Admittedly, these statistics may not capture the full extent of line-manager participation in budgeting. They do speak volumes, however, about the quality of budgets currently being produced by U.S. businesses. **The truth is, engaging line managers in planning isn't merely an exercise in corporate kumbaya. Unlike senior executives, employees who work in the field possess firsthand knowledge of what's really going on at a business.** They know what customers want, how long a piece of machinery will last, and where the opportunities for cost savings lie. Says Jean Nitchals, a senior financial

analyst at Best Buy: "There is a gap between what the store managers know about their operations and what corporate knows."

Business-process consultants have long noted that when line managers have a hand in planning budgets get better. That appears to be especially true when managers actually key their own numbers into the system. Respondents to the CFO/Buttonswood survey reported that when budget holders don't type in their own numbers, more than 40 percent of submitted budgets have errors and omissions; when budget holders do their own inputting, the error rate falls to 28 percent.

At first glance, this result is surprising; common wisdom holds that nonfinance managers are more likely to make mistakes. But Lawrence Serven, a principal with Buttonswood, argues that this finding merely illustrates the perils of failing to engage line executives in budgeting. "We in finance have always thought about formula errors," acknowledges Serven. "But when [corporate] is interpreting the needs of operations, there are errors stemming from miscommunication and misunderstanding."

Hence, when a manager asks finance to raise his travel budget by 5 percent, finance may add 5 percent to the transportation general-ledger account, but neglect the meal or hotel accounts.

That, on a larger scale, is what can happen to budgets when finance or senior management drives the process. Because corporate doesn't understand local issues as well as line managers, even well-intentioned efforts to create budgets on their behalf are likely to be a poor reflection of reality. "When the business-unit CFO is the only one working on the plan, it's going to be a bad budget," says Joseph M. Leone, CFO of consumer- and commercial-finance company CIT Group.

And, of course, it's especially true when senior management unilaterally adjusts line managers' numbers to suit the corporate mandate.

### **Term Limits**

Why is it so hard to build a bridge between finance and operations? Much of the problem lies with differing points of view. Finance managers look at longer-term (typically annual) goals. By necessity, line items in the corporate budget are broad, since they aggregate costs and revenues across disparate businesses. Business managers, by contrast, focus on actually carrying out their strategies. Their plans are typically short-term, specific to the business, and project-oriented.

"As an author of a budget, I don't think in the same terms as accounting people," says Joe Puglisi, chief information officer of EMCOR Group, a specialty construction and facilities-management company. "I think about project-oriented costs and benefits, because that's how you determine your return on investment."

But since finance needs numbers that fit neatly into general-ledger categories, department heads often have to look across individual projects, breaking out what items

get charged to the general-ledger code for transportation, what goes into the office-supplies category, and the like. It's slow and unrewarding work.

### **Ledger Domain**

In theory, budgeting-and-planning (B&P) software is a good way to draw managers more deeply into the process. Often browser or portal-based, the programs enable users to analyze current and historical corporate data and create business models based on different scenarios. Once clunky and difficult to navigate, the applications (from vendors like Microsoft, Hyperion, Cognos, SAS, and others) have gotten more powerful and easier to use in recent years.

That's a winning combination, but apparently not one that has won many converts outside of company finance departments. While many companies have purchased licenses allowing nonfinance managers to use B&P software, our survey found that those licenses are largely going unused. In fact, according to the survey, 40 percent of nonfinance users never logged in to their employers' B&P systems during the past year.

Part of that reluctance may come from a fear of technology. It may also stem, in part, from the gap between what finance needs and what operations wants. Like the budgeting process itself, most B&P systems mirror the CFO's view of the company: an Excel-like grid with general-ledger items running down one side. "It's accountants who buy these tools, so it's not surprising that the software resembles the spreadsheets they like," says Serven. In fact, in recent years vendors have worked to make their programs look and feel more like Excel (a potentially worrisome trend, given that many managers aren't adept at Excel; see "[Wanted: A Better Front End](#)" at the end of this article).

*EMCOR has neatly prevented that problem by adopting B&P software (BudgetPak from [XLerant](#)) that lets operations executives enter costs in terms that make sense to them: by project. Instead of the spreadsheet grid, the program asks a user a series of questions (akin to how TurboTax and other consumer-oriented financial programs work). The application then takes those numbers and rearranges them into the general-ledger codes that finance needs.*

Training can also help managers appreciate the budgeting process. UMB Financial Corp. in Kansas City, Missouri, reports success with one-day budget-training sessions run jointly by the CFO, CEO, and COO. The idea, according to CFO Michael Hagedorn, is to help managers see their own budgets in the broader corporate context.

The connection is important. Once it is established, managers tend to feel less put upon when asked to spend long hours cobbling together forecasts for corporate. In fact, the number-one reason why managers don't create their own budgets, according to the survey of CFO readers, is that they don't want to spend time on it.

### **Cops and Robbers**

It's the bonus-to-budget connection that really skews the process. "In budgeting, the guy who wins is the one who is best at gaming the system," contends Steve Player, program

director for the Beyond Budgeting Roundtable. "Finance is supposed to be a helper of the line, but budgeting turns us into corporate cops."

"In most cases, we pay maximum bonuses for poor performance," says Player. "If we planned to have a 10 percent sales increase, but the market grew 20 percent, we've eroded market share."

Most CFOs would probably agree with Player's broader point that budgeting as it's practiced today does a poor job of improving business results.

It doesn't have to be that way, argues Serven. "We tend to think of budgeting and planning as a necessary evil, like filling out tax returns," he says. "But if we treat it as a management exercise, it can be enormously valuable, both to the company and to the individual budget holders."

*Don Durfee is research editor of CFO.*

For the complete article please click here

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## Wanted: A Better Front End

Executives eager to get midlevel managers to use budgeting-and-planning software are often exhorted to follow one simple rule: make sure the program looks like Excel. The thinking? Despite many well-documented drawbacks, spreadsheets are familiar. And when it comes to getting employees to tackle new software, vendors say familiarity breeds content(ment).

Possibly, but results from a recent CFO poll would seem to undercut that argument.

According to the survey, which queried 150 finance executives, very few operational managers actually use B&P software — whether the programs look like Excel, Lotus 1-2-3, or a point-and-click abacus. What's more, employees who work in departments other than finance aren't nearly as adept with spreadsheets as many vendors would have you believe. Indeed, our survey listed four common (and essential) tasks in Excel and asked respondents what proportion of nonfinance managers would be able to do them without error (see "[Not Excel-ing](#)" at the end of this article).

The results weren't exactly inspiring. For example, only 26 percent of respondents said most of their managers could successfully create a formula that references a relative column but an absolute row. Barely 17 percent believed that most could link a formula in one spreadsheet to a number in another.

Granted, most B&P programs guard against such goof-ups by locking down the cells so that users can change numbers but not the template. That's fine as long as managers have all of the necessary numbers at their fingertips. This is not usually the case. ***"The budget entry form is just that: a place to enter your budget after you have created it,"*** says Lawrence Serven, a principal at The Buttonwood Group. And that budgeting is usually done in — you guessed it — Excel, either as an add-in for the B&P system or as a separate file.

A possible solution, says John Hagerty, vice president and research fellow at AMR Research, would be to create a more intuitive, text-based interface for budgeting software. "Instead of forcing people into a form that's easier for you, you could pull from them the data you need and then decipher what it means," he says. "It could be like TurboTax, which asks you a series of questions and pops out an answer. Even my kids can do my taxes using that software." — D.D.

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## Not Excel-ing

Percent of respondents who say that "most" or "almost all" nonfinance managers could execute these common spreadsheet tasks without error:

- 26%** Create formula that references a relative column but an absolute row
- 25%** Copy and paste values without pasting formulas
- 18%** Insert rows and add a new subtotal and then adjust the formula for the grand total
- 17%** Link a formula in one spreadsheet to a number in another spreadsheet in the same workbook

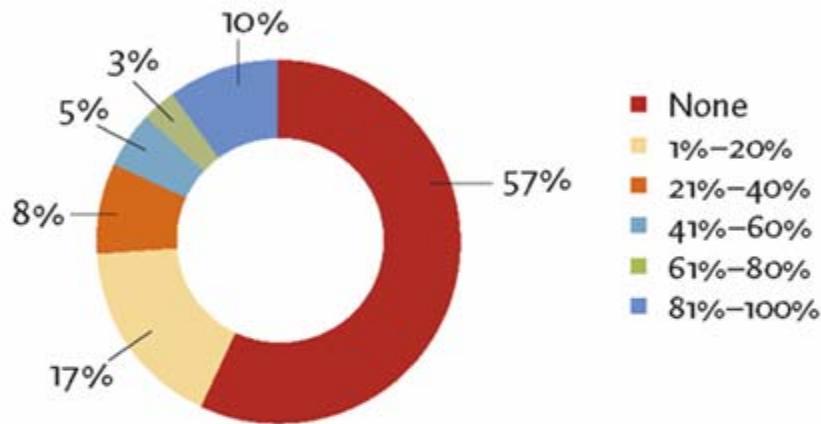
*Source: CFO/Buttwood survey*

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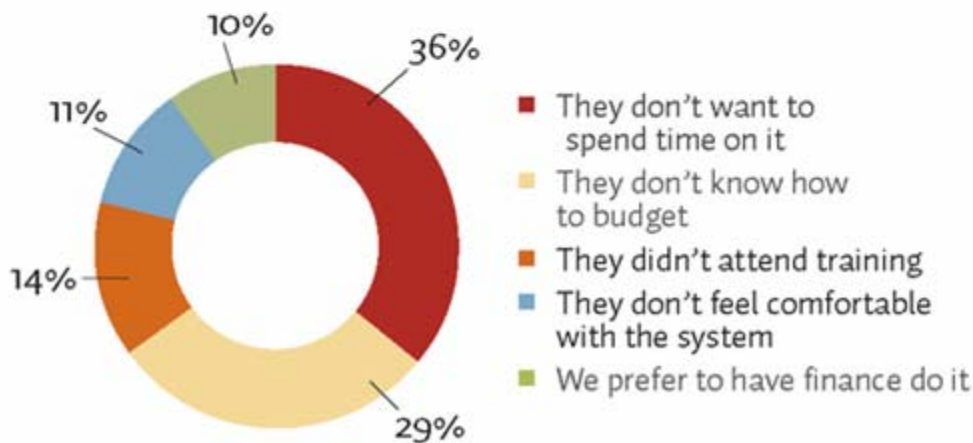
# MINIMAL ENGAGEMENT

A SURVEY OF 150 CFO READERS FINDS THAT LINE MANAGERS STAY AWAY FROM BUDGETING.

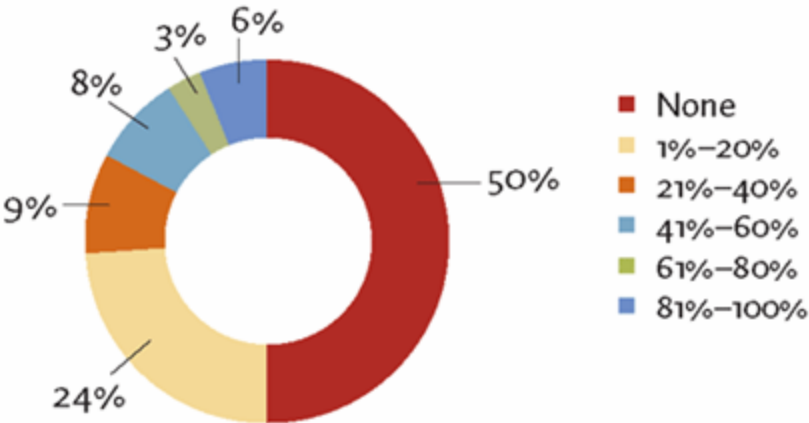
What percent of nonfinance managers personally key in their own budgets?



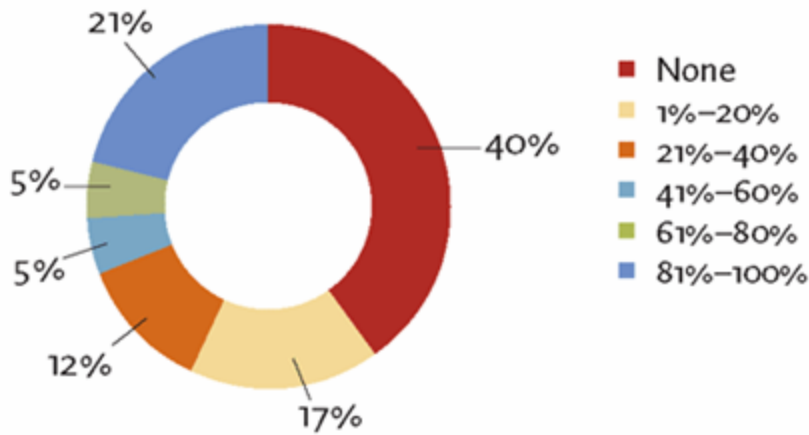
What are the reasons nonfinance managers don't key in their own budgets?\*



What percent of nonfinance line managers directly provide variance explanations without requiring assistance from finance/accounting staff?



What percent of nonfinance staff permitted to use your B&P software system have logged into it in the past year?



\*Respondents allowed to choose more than one Source: CFO/Buttonwood survey

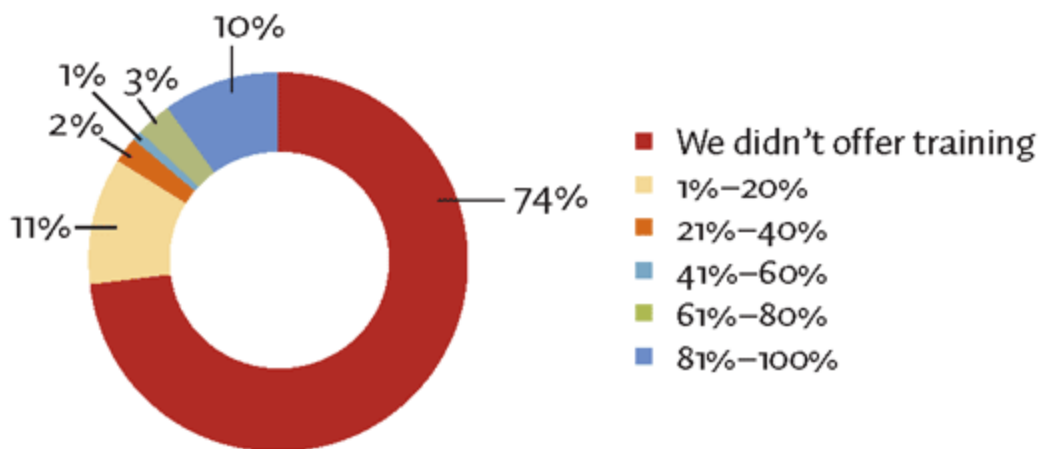
# TRAINING NEEDED

AS THESE TWO SURVEY RESULTS SHOW, NONFINANCE EMPLOYEES CAN BE QUICKLY TAUGHT HOW TO HANDLE BUDGETING TASKS— BUT FEW ARE GIVEN THE CHANCE.

How many hours of training would be needed for a nonfinance user in your company to learn each of the following tasks? (median hours required)

Log into the budgeting/planning system	1 hour
Navigate to the appropriate budgeting screen	2 hours
Enter his/her budget	3 hours
Run a report and compare current and prior-year spending	2 hours

What percent of your company's nonfinance users actually attended the training offered on your system?\*



\*Results do not add up to 100, due to rounding.

Source: CFO/Buttons survey

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[Dynamic Budgets Off the Mark](#)

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[Are You Trapped in Spreadsheet Hell?](#)

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